

RECKITT & COLMAN HOLDINGS LIMITED

The Chairman's Statement

The Thirteenth Annual General Meeting of Reckitt & Colman Holdings Limited will be held at the Connaught Rooms, 15 Great Queen Street, London, W.C.2, on Friday, the 10th June, 1966, at 11.30 a.m. The following is an extract from the Chairman's Statement in respect of the year ended January 1st, 1966.

RESULTS

In the half-yearly report which we issued in November last we published the results which we expected for 1965. Our accounts show that world sales at £105,300,000 were rather more than 12 per cent. higher than those made in 1964, while the Consolidated Trading Profit, always more difficult to estimate, rose by nearly 71 per cent. to £12,808,000. This is not so good an increase as was hoped for, chiefly because results for the last two months of the year were slightly short of forecast in parts of the home market and in the U.S.A. where, nevertheless, record figures were returned. I regard the overall result as very satisfactory when account is taken of rising costs, keen competition and price controls in some parts of the world.

The rate of increase of sales was greater than it has been in recent years. Apart from the effect of continuing inflation, this was due to a general improvement in our trade, to the recovery by our American subsidiary of sales lost as a result of a strike at the end of 1964 and to the addition of new businesses during the year. The actual increase achieved by our Group as it existed at the beginning of the year was 8 per cent. while the remaining 4 per cent. was due to additions, of which the most important was that of F. W. Hampshire & Co. Ltd.

Amalgamations and acquisitions have featured in our life since the mergers which formed our Company in 1953/54 and in recent times the average annual rate of growth of sales has been about 6 per cent. by the Group as it existed at the start of any one year and about 9 per cent. when the additions to it are included.

Expansion, whether from within the existing business or by additions to it, demands money and the first source of this commodity is retained profits. In this way we have, over the years, invested our surpluses in our own business and used our credit facilities around the world as necessary. The rather more rapid than usual expansion which took place in 1965 included the purchase of the outstanding shares of F. W. Hampshire & Co. Ltd. for a net cash outlay of £3,200,000 as well as some smaller acquisitions. This caused your Directors to decide that more permanent finance was desirable and, as you know, £4,000,000 of 6½ per cent. debenture stock was placed in the City last November at £98 per cent., one quarter of the purchase price being receivable in the year under review and the remainder early in 1966.

The amount allocated to the Employees' Profit Sharing Scheme has risen from £570,000 to £605,000. Out of last year's total £42,000 was taken by employees in the form of ordinary shares in the Company and 37,000 shares were issued in satisfaction. We had expected that more shares would have been accepted but the implications of Capital Gains Tax may have

deterred some who would otherwise have participated.

Taxation is now governed by the Finance Act 1965 which, as I told you last year, is particularly injurious to a company with large overseas interests. The fact that the tax upon this year's higher profits is shown to be £1,066,000 less than was payable last year is entirely due to the radical change in the United Kingdom tax system which separates the Company, paying Corporation Tax, from the Members of the Company, paying Income Tax upon the dividends they receive: their tax will, of course, be paid for them by their Company, which, already liable for Corporation Tax, will now charge to profits the gross cost of the dividend, including Income Tax upon it at the standard rate, instead of the net cost after tax.

In these 1965 accounts corporation tax at 40 per cent. has taken the place of income tax and profits tax at a combined rate of 56½ per cent. in 1964 so far as the profits of companies operating in the United Kingdom are concerned but on the profits of companies operating outside the United Kingdom the local rate of taxation applies and this is, of course, usually higher than 40 per cent. The total tax, home and abroad, on the profits of our Company is £4,727,000 as explained in Note III. Without the £650,000 transitional relief the figure would have been £5,377,000.

Dividends and retentions are met out of the pool of profit after tax. In the tax year ending on the 5th April, 1966, the cost to our Company of a 14 per cent. dividend was £2,384,000—the gross amount of £4,058,000 less income tax at 8s. 3d. In future it will be the gross amount, inclusive of £1,674,000 income tax, and, as the cost of the preference dividend will rise by £93,000 for the same reason, the total extra amount needed to maintain the ordinary dividend at 14 per cent. will be £1,767,000. Against this can be set the lower rate of United Kingdom taxation on the Company as such but a large proportion of our profit is earned and taxed abroad, at a rate higher than 40 per cent. and, except for transitional relief, we shall not now get United Kingdom relief for overseas taxation above that rate. I said last year that on our 1964 results the shortfall of double tax relief would be £750,000 by comparison with the previous system of taxation and on this year's higher profits it would, of course, have been more: in addition to this, dividends from The R. T. French Co. are now subject to a 15 per cent. withholding tax instead of the 5 per cent. charged before the Treasury of the U.S.A. reacted to the new system of United Kingdom taxation. The £650,000 transitional relief for double taxation receivable in respect of 1965 will become progressively less in each of the next six years unless changes are made by the Finance Act 1966.

This year it has been possible to add the

exceptionally large sum of £4,460,000 to reserves because, while the average rate of tax on the Company's profits fell, the need to pay the dividend gross did not arise before a 14 per cent. ordinary dividend had been paid in respect of 1965.

I am quite sure that the changes in the system of British taxation, as well as its total weight, diminish the incentive to create wealth by industrial enterprise. Particularly is this true for companies such as ours whose best prospect of earning money for the benefit of our Country is by investing abroad: in most cases this policy will in future be less attractive than that of exploiting the home market.

Our businesses abroad which are responsible for about £60,000,000 worth of trade now send back to the United Kingdom over half as much sterling per annum as was ever sent abroad to found them.

DIVIDEND

Your Directors announced their dividend policy for 1965 last November. In accordance with that policy a second 7 per cent. interim ordinary dividend was paid in March 1966 and your Directors now recommend, as an exceptional measure for this year only, the payment of a one per cent. bonus to ordinary shareholders on 1st July 1966. The purpose of this bonus is to compensate those ordinary shareholders, such as charitable institutions and people with small incomes, who normally expect to reclaim income tax and who could reclaim only at the net United Kingdom rate in the fiscal year 1965/66, during which the second interim dividend was paid, instead of at the standard rate of 8s. 3d. in the 1966/67 tax year when the concept of a net United Kingdom rate no longer applies.

PROSPECTS

Our forecasts for 1966 show further substantial growth in sales and profits and early reports from subsidiaries are reasonably encouraging. The start of the year in the home market was satisfactory under the circumstances of the political uncertainty then prevalent and, though the rate of increase of purchasing power of our customers may decrease as the year advances, I expect good overall results. But better balance is needed in the United Kingdom economy. The rate of inflation evident in 1965 and still persisting must be checked: it is bad for our Country, for its people and thus for our Company whatever may be the temporary benefits it appears to offer. Our business abroad is also subject to economic and political influences over which we have no control but, because it is so widely spread, international rather than local conditions are likely to have the greater effect—always provided that our British Company is based on a sound Britain.

I expect further growth in the years to come and rate our prospects good: they would be better if Britain, along with her E.F.T.A. partners, were part of the European Common Market. British industry might face, though would not fear, more continental competition in the home market but would certainly welcome the chance to tackle the continental market on level terms with its competitors there. I regard this as a very important issue and hope that Her Majesty's government will act before it is too late.

TRADE

Reckitt & Sons Ltd. and its subsidiaries sold more than they did in 1964 though not quite as much as had been expected earlier in the year. To those results are now added the sales made by F. W. Hampshire & Co. Ltd. to whose acquisition in June, 1965 I have already referred. Hampshire's sales for the year were themselves better than in 1964.

In the grocery field the decline of some of the older lines, including those of the less modern types of starch, continues though in most cases at a slower rate than might be expected. Windolene and Harpic however did well and the household aerosols, Floret and Haze, also progressed in a highly competitive market.

Amongst pharmaceuticals Dettol continued to advance as did our analgesics, led by Disprin. Senokot also went ahead. Our toiletry sales again increased: Nulon did well and, though Staderant faced competition, sales of the convenient tablets improved. The three spray sets for ladies hair, Goya by Collins, Wonder Set by Reckitt's and, most important, Supersoft by Hampshire's, improved our share of this growing market: the last named is the leader in its price range.

J. & J. Colman Ltd. and its subsidiaries operate, as you know, in the speciality food and condiment trade. Despite increased competition in some fields this group of companies recorded a satisfactory increase in both sales and profits and, contrary to some popular ideas of what happens in the food industry, their prices remained stable. Nevertheless profit margins were under continuous pressure and will be during 1966; nor is the government's prices and incomes policy, as it appears to be developing, likely to be of any assistance though in so far as our voluntary co-operation is needed to help keep food prices steady it will be forthcoming.

Colman's Ready Mixed Mustard continues to attract customers both at home and overseas and is responsible, by reason of its quality and convenience, for a welcome increase in mustard consumption which is as good for the consumer as it is for the producer. Last year I referred to our new range of instant baby foods; it is now clear that the cleanliness and convenience of these ready cooked foods is really appreciated by the mothers of today, as well as by yesterday's babies, for the sales of both the main course and the sweet course varieties have increased appreciably. We are now adding fresh flavours.

Soft drink sales got no help from the summer of 1965 but Robinson's Barley Water still leads its field and Robinson's Whole Orange is the favourite of many. Joseph Farrow & Co. Ltd. of Peterborough had a satisfactory year in a highly competitive market. Carlton Works is now, amongst other things, a honey packing centre of great importance and the operations previously carried out by the Bear Honey Co. Ltd. at Isleworth have been transferred to Peterborough.

Chiswick Products Ltd. and its subsidiaries recorded substantially higher sterling sales than they did in 1964 though they did not do quite so well as they had hoped to do. Much increase in profits had not been forecast because heavy development expenditure had been planned; in the end there was a shortfall due partly to temporary problems of integration amongst some of the subsidiaries.

Shoe polish sales increased chiefly because of the advance made by Padawax of whose introduction I wrote last year. Shoe creams and speciality dressings also did well but white cleaners receded as a result both of fashion trends and of a wet summer. Fashion at least may be in their favour this year. Floor and furniture polish in their established forms showed a small decrease but Min Spray sold well and Mansion One-Two, our high quality double duty floor cleaner/polish, was launched early in the year with heavy support. It is succeeding well in face of fierce competition.

Sales made by Progress Floor Treatments Ltd. were better than those made by its constituent companies in 1964 but profits were not. Early in the year the Progress Group of companies, which make and handle special machines, became subsidiaries. Complete integration of our industrial floor treatment activities, both machines and products, was then possible and will undoubtedly be beneficial.

Sissons Brothers & Company Ltd. still faced intense competition in the decorative paint field but continued to make progress especially with multi-colour finishes where Portafleck leads and is well established in the market. Of its related companies Porter Paints Ltd. who make industrial finishes, had another good year, while Panelwood and Callugos are developing satisfactorily. The trade based on the Sissons factories in Ireland, Malaya and the West Indies showed vigorous growth.

The R. T. French Co. of Rochester, U.S.A., had an excellent year. Both sales and profits were handsome records, the former showing the best growth rate for many years.

French's business is in speciality foods and condiments though, as a matter of interest, it also has a not inconsiderable trade in a few of Reckitt's older products including Brasso and Silvo. In their principal product groups French's Cream Salad Mustard made the best advance for several years and packaged potato products, led by French's Instant Potato did even better.

The European Board of Reckitt & Colman (Overseas) Ltd. directs our continental businesses including those within the Common Market. It was not an easy year in Europe; the rate of economic development slowed down during the early months and there was, in fact, recession in some areas while price control in France, Belgium and the Netherlands added to the squeeze on profit margins. Nevertheless sales of our own products increased by nearly 20 per cent. and are expected to grow at least as fast in 1966. Obviously the development of sales at this rate is costly and adequate profits are still to come. However we are quite satisfied with our policy and prospects have improved recently, partly as a result of the relaxation of the French economy and of the understandings reached in Luxembourg by the members of the E.E.C.

Our exports to the Continent, in the form of finished or partly finished goods, of raw materials and of equipment increased but this satisfactory achievement will be difficult to repeat at least so far as the Common Market is concerned where it becomes ever more necessary to manufacture within the tariff wall if we are to expand our trade profitably. Accordingly a new household products factory was opened in Germany and a firelighter plant will be needed this year chiefly to serve that market.

Finance for expansion in Europe, both for the necessary fixed assets and for the current assets required to sustain a rapidly growing turnover, is now a problem because present United Kingdom Government policy makes it almost prohibitively expensive to use our sterling resources for this purpose. That same policy reduces the incentive to be enterprising abroad in the way which has earned so much income for Britain from parts of the world where tariff barriers are used to bar her exports.

The much greater part of our overseas trade, outside the U.S.A., is directed by the General

Overseas Board of Reckitt & Colman (Overseas) Ltd. and is most conveniently reviewed by areas with common historic or geographic backgrounds. Those parts of the Commonwealth of basically British origin provide the largest and most solid part of our trade.

Our Australian subsidiary is a large company in its own right and has now settled into its new headquarters and new factory. Sales increased at a better rate than they did in 1964, analgesics making the best advance. The trading profit also improved helped by the operating efficiencies of the new plant and the up-to-date information now provided to management by their new data processing equipment. In New Zealand sales continued to expand and during the year a number of the Group's new products were added to their already large range.

In Canada the economy remained buoyant and this helped our sales. On the food side sales went ahead under competitive conditions while to our range of household products was added an aerosol oven cleaner which is now sharing the lead in its product field.

Our South African business is big by any normal standard and its sales increased well. However rising costs and price controls affected margins so that profits, though good, did not keep pace with sales. Early in the year we completed the acquisition of Cartwright's Curry which fits in well with our mustard and condiment trade.

In Rhodesia and Zambia we have separate companies, each with modest manufacturing facilities, so that we were as well placed as possible to cope with the political difficulties which arose towards the end of 1965. Up to that time both companies had reported notably increased turnover and profits too were good especially in Rhodesia. Now our business is bound to suffer in company with the economies of both countries and we can only hope, for everyone's sake, that a constructive solution will be found.

India is faced with famine and a severe shortage of all imports. This has not so far affected our business whose sales increased well last year but future expansion, which is well within our power, will have to wait for better days; we are not optimistic about 1966 and taxation is exceptionally high. In Pakistan the raw material situation is easier but competition is strong so that we did well to increase our trade. In Ceylon trading conditions improved under the Senanayake government and our company had a satisfactory year.

In South America also our sales, in terms of sterling, increased but the rate of progress was hindered by economic depression, exchange depreciation and inflation. In Argentina we faced the reintroduction of price controls and increasing competition but our sales held up well. In Brazil, our other big market in this part of the world, the austerity measures introduced by the new government produced a severe trade depression but have succeeded in reducing the rate of inflation and in putting the economy on to a more even keel. Our pigment business suffered from the recession in the building trade but our overall results were excellent and total sterling sales nearly caught up with those made in Argentina; however Brazil's financial problems suggest that our results for 1966 may not be so good.

Exports of finished goods from the United Kingdom were again higher than in the previous year and in fact developed well despite the growing number of countries in which we now have to manufacture because of their tariffs and import restrictions. The Group's total exports from the United Kingdom increased from £6,012,000 in 1964 to £6,732,000 in 1965.

During my forty years of service I have got to know many other employees, at all levels, and have learnt with them how to help our work go smoothly. I now want to thank all those who taught me and all those who helped me and to remind you that it is the loyal co-operation of all who work for our Group of Companies which has enabled us to please our customers not only in 1965 but for many years past; they have set a fine example for many years to come.